

The President's Daily Brief

May 7, 1975

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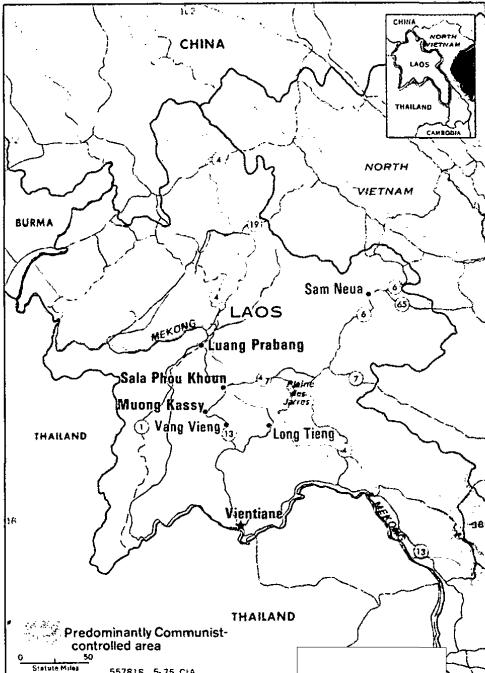
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LAOS

Military activity has resumed in the Sala Phou Khoun area of northern Laos after nearly a week's lull. This development will further demoralize the leadership of the non-communist side, which is already convinced that the Pathet Lao--emboldened by communist victories in South Vietnam and Cambodia--have decided to adopt a much more militant posture in Laos. A number of senior non-communist political and military leaders yesterday reportedly sent a memorandum to Prime Minister Souvanna Phouma offering to resign or retire.

[redacted] Pathet Lao forces supported by ten light tanks yesterday launched new attacks against non-communist positions in and around the Sala Phou Khoun crossroads. The non-communists are believed to have abandoned most if not all of their positions along routes 7 and 13 guarding the approaches to Sala Phou Khoun, as well as the strategic road junction itself.

After reaching Sala Phou Khoun, the Pathet Lao reportedly split their forces. A force perhaps as large as two infantry battalions, accompanied by four tanks, was dispatched south along Route 13 toward the town of Muong Kassy, which--like Sala Phou Khoun--was in non-communist hands at the time of the cease-fire in February 1973. An unknown number of infantry troops supported by six tanks headed north along Route 13. Reports this morning indicate this Pathet Lao force has reached Muong Kassy and surrounded the town.

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There is no confirmation [redacted] that some North Vietnamese forces are supporting the Pathet Lao. Moreover, bad weather has prevented [redacted] confirming the presence of tanks in the area. 25X1
[redacted] 25X1

The Royal Lao Army thus far has not resisted these Pathet Lao attacks, their leaders preferring instead to seek a political solution. [redacted] 25X1
[redacted] 25X1

[redacted] the army should fall back and not attempt to resist Pathet Lao advances. The Pathet Lao thus are moving their forces unopposed. [redacted] 25X1

[redacted] the North Vietnamese ambassador in Vientiane to counsel the Pathet Lao to exercise restraint. 25X1
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The military action, which has been intermittent since April 14, has produced side effects. Route 13, the only overland link between Vientiane and Luang Prabang, has been closed, thereby seriously aggravating the economic situation in the royal capital. Food, fuel, water, and other consumer items, the bulk of which are normally delivered to Luang Prabang by truck, reportedly are in short supply, and prices of available commodities have skyrocketed.

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[redacted] the brother of Prince Boun Oum na Champassak--the titular leader of southern Lao rightists--was killed Monday in Vientiane by a plastic charge tossed at his car. Two other Lao also died in the incident. 25X1

Rumors have been making the rounds in Vientiane the past few days that Pathet Lao headquarters in Sam Neua has issued a directive calling for the elimination of rightist and other non-communist leaders by assassination or other means. Although there is no evidence the Pathet Lao were responsible for the plastic charge, the non-communist leaders will almost certainly draw that conclusion and interpret the action as a warning that a similar fate may well be in store for them.

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The Soviet Union has reaffirmed its support for the Laotian coalition government. Moscow may be sending Hanoi a message that it does not want a military solution in Laos, while indicating to a broader audience that it will not be responsible if such a solution comes in the future.

On Monday, Soviet President Podgorny greeted a Laotian delegation headed by a right-leaning neutralist who is deputy chairman of the Joint National Political Coalition Council. Podgorny expressed confidence that strong Soviet-Lao ties are in the best interest of all peoples of Southeast Asia.

The meeting seems to be part of a continuing Soviet effort to project the idea that Moscow neither anticipates nor wants a resumption of the Laotian war. In Vientiane, Soviet Ambassador Vdovine told the US envoy yesterday that the recent fighting near Sala Phou Khoun did not signify any significant impending change in the Laotian situation and reiterated Moscow's support for the coalition. Soviet media have continued to praise the coalition's progress toward reconciling the opposing forces.

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UNITED KINGDOM

Prime Minister Wilson returned to office early last year with a strong new commitment to the importance of good relations with the US. The British are well aware that their impact on world affairs has diminished, and they believe they must make their influence felt by participating in multilateral organizations, such as the EC, NATO, the Commonwealth, and the UN. In recent months, however, the government has been preoccupied with domestic concerns--the referendum on EC membership and the economy--and has paid less attention to foreign policy issues.

Relations with the US

Recent events in Indochina rekindled debate in Britain over the kind of relationship that should exist between the US and the UK as well as between the US and Europe. Government leaders have said little publicly about the meaning of Indochinese events for US-European relations; their private remarks do not convey any doubts about US reliability. Most moderate, pro-American members of the Labor Party have welcomed the US disengagement from Indochina, [redacted]

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[redacted] no one in the Labor Party or in serious politics questions the US commitment to Europe. Political commentators, while drawing a distinction between US commitments to Indochina and to Europe, profess to see a growing skepticism in US attitudes about the world, an adversary relationship between the executive and legislative branches, a lack of clear leadership in Congress, and a loss of American self-confidence.

Concerning Atlantic relations, the British now are optimistic because they see an emerging generation of European leaders who take an Atlantic rather than a single-mindedly pro-European point of view. The British are hoping that in the future the European-Atlantic dialogue will be better balanced than in the past, and that trust will grow so deep

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that the relationship can tolerate differences between the US and the Europeans without leading to unproductive recriminations. [redacted]

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[redacted] Callaghan intends to concentrate on trying to put the US-European dialogue on a firmer footing after the referendum, assuming the British electorate opts to stay in the EC.

CSCE

In an interview last month, Callaghan said that Britain has exerted considerable influence on developments at the European security conference in Geneva. Trying to be both flexible and firm, the British nevertheless are not overhasty--they are willing to "sit in Geneva till Christmas if necessary." Their tolerance of outrageous Soviet tactics has been limited, and they have stood up to the Soviets skillfully on some key issues. They have also taken the lead in urging the Western allies to make significant concessions on some issues for the sake of momentum.

NATO

NATO still has strong government and public support in the UK, despite the Labor government's intention to cut defense expenditures over the next decade. This support could dwindle if the alliance appears to be weakening and if East-West tensions appear to be easing. The British want to maintain good relations with the other NATO countries, and, although they did not modify their plans to reduce defense spending as a result of consultations with the allies, they did agree--at US request--to maintain their sovereign base areas on Cyprus and their air force facility at Masirah off the Arabian peninsula. The British will continue to participate in the Mediterranean on-call force.

Commonwealth

The British interest in improving relations between the producers and consumers of raw materials was highlighted at the Commonwealth conference, which ended yesterday. The British viewed the conference as an ideal forum because it includes an economic cross section of the world and because the

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moderate orientation of its membership would make the grouping more receptive to proposals by a developed country than would a larger meeting of the developing countries. The British wanted to use the conference to prepare for further international discussions prior to the UN special session on raw materials this September. At the conference, however, Wilson's six-point plan, aimed primarily at reaching an equilibrium between producers and consumers, received a mixed reaction.

The British regard the recent preparatory conference of energy producers and consumers as a diplomatic defeat for the West because the developing nations did not accept the view that there is a community of interest between rich and poor consumers. In London's view, part of the reason for the failure was haste, and a second conference should be held only after careful and lengthy preparation. The British believe that the conference was helpful to the extent that it revealed the tough behavior of the producer countries and the developing consumer nations and demonstrated the inadequate consultation procedures of the developed consumers, especially among the EC.

UN

The British believe that the UN is not fulfilling the role for which it was established. Callaghan recently said that all nations must work to strengthen the UN and to avoid the confusion and confrontation that has afflicted the organization for some time, and that no single group should be allowed to ride roughshod over others.

Domestic Problems

British leaders have been preoccupied with the referendum on EC membership scheduled for June 5 and with domestic economic problems, including the highest inflation rate in Europe and rising unemployment. The bitterness and divisiveness that the EC issue has aroused in the Labor Party will not be soon forgotten. (This issue is examined in more detail in the succeeding article.) Regardless of the outcome of the referendum, Wilson may come under considerable pressure for his pro-EC position at the party conference this fall and

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at the annual election for party leader. There is little prospect for his ouster, barring a "no" vote in the referendum, largely because there is no agreement on a successor.

The issue most likely to cause a confrontation between the Labor Party organization and the Prime Minister is the British economy. It has been hit by accelerating inflation triggered by rising wages, which the unions do not appear willing to curb, a decline in production, a fall in exports, the largest balance-of-payments deficit in the world, and a decline in the value of sterling. The government in its recent budget tried to tackle inflation by increasing taxes. The trade unions fear the tax increases will aggravate a worsening employment picture, and they worry that the government's next move will be a strict clampdown on wages if prices continue to soar.

With little room left for maneuver, London is counting on a rise in foreign demand to lift the British economy out of its current straits.

The recent US tax cut was welcomed by London as laying the groundwork for a vigorous expansion in the world economy.

Britain's payments problems will continue to be severe. Though the trade gap has narrowed considerably since the first of the year, private capital inflows have continued to fall. The Saudis have stopped accumulating sterling altogether. Fears that the Labor government will not be able to resolve Britain's economic problems are widespread, and the pound has been under steady pressure for the past month. Sterling is in for a rough summer, and if the EC referendum goes against continued membership, a payments crisis could develop.

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UK-EC

Britain's relationship with Europe, one of the major questions that has pre-occupied postwar Western Europe, will reach a conclusive stage on June 5 with Britain's first-ever national referendum. The British, including the governing Labor Party, have been and are deeply and acrimoniously divided over this issue. A "no" vote on EC membership could bring down the Labor government and lead to a further deterioration in the UK's economic situation.

The Wilson government has for almost a year been engaged in a "renegotiation" of the terms of Britain's entry into the European Community in January 1973--almost entirely as a result of a strategy aimed at maintaining party unity. In March, Wilson announced that the renegotiation had been successful, the government recommended continued membership, and Parliament approved the government's position by a large majority. In fact, British demands were fairly modest and a favorable outcome of the negotiations was never seriously questioned given the dominant interest, on both sides, in keeping Britain in. The renegotiation process, however, probably has had little impact on the voter, and, hence, the outcome of the referendum outcome is uncertain.

The prospect at the moment is that a scant majority of the electorate will favor remaining in the EC. But developments before the vote--abrupt changes in food prices or adverse developments regarding sterling--could produce additional votes against continued membership. The government will be making every effort to avoid anything that could have such an impact, and it would gratefully welcome an affirmative decision to start the process of healing internal political divisions. A decisive affirmative vote would probably remove "Europe" as a perennial domestic issue fairly soon.

If the electorate should vote to leave the EC, the Conservative, Liberal, and nearly half of the Laborite members of Parliament might vote to retain membership anyway. A referendum vote against the EC would, however, likely lead Prime Minister Wilson--who is on record that the people's decision will be binding on his government--to resign and call national elections.

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Withdrawal from the EC would open a probably lengthy and certainly difficult period during which the UK would have to arrange alternative trade and other economic relationships. While it would no doubt eventually reach some accommodation with the EC--its major trading partner--in the form of a modified free-trade agreement, Britain's economy would suffer seriously during the interim. The domestic economic situation would be further harmed over the long run because Britain would no longer be compelled to modernize its industry, and its international competitive position would worsen. Such an economic decline would in turn diminish Britain's international importance.

Movement toward further European political and economic integration, already slow, would also be set back, and the EC's own policies would probably become less outward looking and more protectionist--to the disadvantage of all its trading partners.

The UK shares the US outlook on most major international issues, both political and economic, and has forcefully advanced these in EC forums. To some extent, British membership has given the US a "friend in court" who has veto power and is privy to all critical EC deliberations. Because EC political consultations--including periodic heads-of-government meetings--have become increasingly significant, the continued UK presence in the EC has become all the more important to the US.

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NEW ZEALAND

Prime Minister Rowling will plead his case for greater export opportunities in the US during his visit here this week.

New Zealand's total export earnings actually fell last year because overseas demand for beef and wool plummeted. The government has been forced to make up the deficit by borrowing heavily abroad. The Prime Minister undoubtedly is concerned most about the market for the country's large number of beef cattle. He will probably seek to increase the US voluntary quota, which already permits New Zealand to ship at least 5 percent more beef this year than last.

New Zealand's advocacy of a South Pacific nuclear-free zone is the only strain in relations with the US. Rowling's adoption of former prime minister Kirk's pet project is partly an effort to cash in on Kirk's widespread appeal. It also makes good politics to cater to the very real popular fears in New Zealand over nuclear pollution; these remain strong even though the French have ended atmospheric testing in the nearby South Pacific.

Rowling has not been persuaded that the possible impediment of the free movement of US nuclear-powered vessels could lessen the protection afforded New Zealand under the ANZUS pact. The New Zealanders have not brought themselves to make a distinction between nuclear weaponry and nuclear propulsion.

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Wellington, for example, has been more averse than Canberra to considering port calls by US nuclear-powered ships. It has also stalled on US requests that it take over the management of a naval stores basin and fuel depot

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The New Zealand Laborites	25X1
	25X1
appear	25X1
to feel that to facilitate US access to [redacted]	25X1
naval facilities would run counter to their view	
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Some of New Zealand's show of independence may stem from a feeling of being unnoticed. The New Zealanders have seen that Australia's more nationalistic stance has at least brought it greater US attention.

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CHINA

Chinese Foreign Minister Chiao Kuan-hua has taken a positive view of the US world position in the wake of communist victories in Indochina, denying both that Sino-US relations would suffer as a consequence of developments in Vietnam and Cambodia and that Washington had lost its will to play a leading, active role in world affairs.

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Chiao [redacted] addressed [redacted] the question of the US' ability and "will" to protect its international interests and project its power abroad. He claimed that Washington demonstrated "the most stubborn will" over a long period in Vietnam and that US difficulties stemmed from the fact it was overextended in Southeast Asia, not that it lacked the will to pursue its foreign policy aims.

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Chiao indicated that he expected the US, now freed from Vietnam burdens, to play an active and "more positive role" in the Pacific, in large part, he implied, as a counterweight to Soviet power.

Chiao's view that Washington would now be able to concentrate on areas more important to it--in particular Europe and the Middle East--had been expressed earlier by lesser Chinese officials.

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[redacted] a right-wing reaction to Vietnam in the US might affect relations between China and the US. He added that in Peking's view, there is a "strong possibility" that your visit to Peking this year "will not be as productive as we would wish."

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All this indicates that Peking is still sorting out the implications of recent developments in Indochina for its own interests. [redacted]

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[redacted] Peking has neither abandoned hope for further movement in Sino-US relations nor written off Washington as a counterweight to Moscow. His hint that the US should continue to play an active role in the Pacific is especially significant in this regard.

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[redacted] Peking hopes to continue along paths charted over the past several years, but over the next several months the Chinese almost certainly will be looking for clearer indications of how the outcome in Indochina in fact affects US policy.

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IRAN - IRAQ - PERSIAN GULF

Iran is studying a proposal for a Persian Gulf collective security pact put forward by Iraqi leader Saddam Husayn Tikriti during Saddam's recent visit to Tehran.

The Shah has told Ambassador Helms that Baghdad's proposal would provide for common action to meet both "local" and "external" threats. The Shah believes it may reflect an Iraqi willingness to withdraw "somewhat" from Soviet influence, and that it offers some guarantee that Iraq would not move forcibly to secure its demands for territorial concessions from Kuwait.

The Shah has long regarded the conservative Arab states in the Gulf as ripe for radical subversion, and tried unsuccessfully to foster a regional security arrangement that excluded--indeed, was largely aimed against--the leftist regime in Iraq. The Shah's scheme foundered on traditional Arab-Persian rivalry and distrust, and on the reluctance of conservative Arab leaders to antagonize Baghdad by joining non-Arab Iran in such an arrangement. Sponsorship of a security pact by the Baghdad regime itself, the comprehensive accord headed by the Shah and Saddam Husayn in Algiers last March, and the leadership change in Saudi Arabia seem to have lessened many of these problems.

If a Gulf-wide pact is to be arranged, it probably would include a mutual nonaggression pledge, an agreement to consult on Gulf problems, and some formula expressing the common interest of Gulf states in excluding foreign powers from interfering in the area's affairs.

Noninterference by foreign powers has been a common theme in the public statements of Iranian and Iraqi leaders since the signature of the Algiers accord. A possible trade-off between the Shah and Saddam Husayn might be a promise by Baghdad to limit the Soviet navy's access to Iraqi ports in return for Iranian pressure on Bahrain to terminate the small US naval presence there.

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The Shah has justified the presence of the US Navy Middle East Force only as a counter to Soviet naval activity in the Gulf. It would be difficult for him to push the Iraqis to exclude the Soviets without also supporting exclusion of the US.

The Shah would consider he had gained by such a trade-off, partly because it would leave the Iranian navy the most powerful in the area.

Iraq's motives in proposing a Gulf security pact are less clear. Baghdad may see a broader security pact as a means of obtaining a nonaggression pact with Iran. Iraq, moreover, is trying to project an image of a powerful, yet responsible Gulf Arab state.

Saddam Husayn may also hope to trade Iraqi cooperation on Gulf security for Iranian or Saudi help in securing territorial concessions from Kuwait. Baghdad continues to press Kuwait to cede two islands flanking the approaches to Iraq's port of Umm Qasr.

A Gulf security pact would have implications for the Dhofar rebellion in Oman. Iraq--along with South Yemen--has provided money, arms, training, and leadership to the guerrillas. [redacted]

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[redacted] Saddam Husayn has agreed to end this support for the rebels, who in any case, are faring badly. A winding down of the rebellion would also allow Sultan Qabus to push his long-range policy of reducing Oman's dependence on the British [redacted]

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[redacted]

The Saudi attitude on a security pact would be critical in determining how the smaller Arab Gulf states--particularly Qatar and Bahrain--react to any proposals. The leaders of Qatar and Bahrain generally remain skeptical about Iraqi intentions in the Gulf. The Amir of Qatar recently told a US official that he had no illusions about Baghdad ending its subversion against Gulf states.

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PORUGAL

Tensions between the Portuguese Socialist and Communist parties appear to have subsided following an agreement by party leaders to cooperate in the coalition government and to defend the reforms made since the military assumed power last year.

Representatives of the two parties, including Socialist leader Mario Soares and Communist chief Alvaro Cunhal, met Monday at Communist Party headquarters to discuss their differences. Both Cunhal and Soares have recognized the need for cooperation, but previous attempts to resolve their differences have broken down when they found themselves at odds on policy issues. Cunhal told reporters he hoped that progress toward greater cooperation could be made in future talks, which were called for in a communiqué issued at the conclusion of the meeting.

The Communists' desire for closer cooperation with the Socialists probably reflects the belief of some party members that they have lost some influence with the Armed Forces Movement, particularly since the elections showed the Socialists, not the Communists, to be the party of the "people." The Communists may also face widening rifts within party ranks between older, Moscow-oriented leaders and younger members who prefer to operate along the lines of the more nationalistic West European Communist parties.

There have been indications in recent days that Soares would also welcome a cessation of hostilities and would prefer to follow a softer line toward both the Communists and the Armed Forces Movement. He has been forced to take a harder stance, however, by party militants who fear that if the Socialists do not press their advantage now, they will lose the benefit of their electoral victory.

The agreement between the two parties was probably strongly encouraged by the Armed Forces Movement, which has repeatedly emphasized the importance of unified support for its policies. Soares was called in by military leaders to discuss party difficulties last Friday, and Cunhal had a two-hour session with President Costa Gomes on Monday.

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PANAMA

Panamanian leaders, sensing that a critical point is at hand in the canal treaty negotiations, believe that the outcome might turn on having world opinion on their side. Top government officials are engaging in shuttle diplomacy in quest of new support.

Foreign Minister Tack has set the pace for the campaign to secure new pledges of foreign support. During the last several weeks he has visited six South American capitals, and he is now in Washington to present Panama's case at the OAS General Assembly. Chief of State General Torrijos personally handled discussions in three Central American countries. Panamanian missions eventually will go to all the remaining Latin American countries, as well as to any international meetings where expressions of support might be garnered.

The Panamanians are effectively using the theme that ending the US "colonial" presence in Panama is an objective that all Latin countries should share, and that the US handling of the canal treaty negotiations will be an important test of the sincerity of Washington's desire for a new relationship with the region.

General Torrijos believes that only by keeping up direct and indirect pressure can he convince the US government that it should give high priority to reaching a new relationship with Panama on the canal issue. During the past two months, the Panamanian campaign for international support has been given new impetus by the need to counter mounting opposition by certain groups in the US to any change in the canal situation. The Panamanians are chiefly concerned about what they consider a campaign by some US legislators and residents of the Canal Zone to sabotage the negotiations. In addition, they fear that events elsewhere may divert US attention from the canal question or, still worse, lead to a hardening of the US negotiating position or even to a decision to abandon the negotiations on the grounds that the US public would not now tolerate giving up control over the canal.

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While still firmly committed to completing the treaty negotiations, Panamanian officials now are seriously considering the implications of a stalemate or breakdown and what they can do to lessen the chances that this will take place. Recent statements that Panama cannot budge on its demands for a relatively short-term treaty and other key objectives probably are meant to reinforce Torrijos' stand that he will not sacrifice principles in order to improve the chances of getting US ratification of a treaty.

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NOTES



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Numerous import restrictions adopted by Australia since January have helped cut into import levels and substantially improved the trade balance.

Even though foreign demand for Australia's exports remained weak, the fall in imports--about 6 percent in volume terms--led to a \$400-million trade surplus in the first quarter, compared to a nearly balanced trade account the preceding quarter. Canberra has nonetheless continued to impose new import restrictions. Two weeks ago, tariff rates on television components were raised from 35 percent to 45 percent; the US is a major supplier of these components.

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